ASCS Background Information

PRODUCTION ADJUSTMENT/ PRICE SUPPORT

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Department of
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Agricultural
Stabilization and
Conservation
Service

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Purpose of Programs

Production adjustment and price support programs are designed for the purpose of (1) stabilizing, supporting, and protecting farm income and prices, (2) assisting in the maintenance of balanced and adequate supplies of food, feed, and fiber, and (3) aiding in the orderly marketing of farm commodities.

These programs include commodity loans and purchases, various means of production control, payments, and the farmer-owned grain reserve.

The programs are financed by the Commodity Credit Corporation (CCC), a government-owned entity, and administered by the Agricultural Stabilization and Conservation Service (ASCS). The Food Security Act of 1985 provides a 5-year framework for the administration of these and other agriculture and food programs.

The Food Security Act of 1985

The Food Security Act of 1985 differs from its predecessor, the Agriculture and Food Act of 1981, in several ways:

- The Secretary of Agriculture is given wider discretionary authorities for implementing annual commodity programs.
- The 1985 Act covers 5 crop years—1986-90. Minimum target prices are frozen at 1985 levels in 1986-87 for wheat and feed grains, 1986 only for cotton and rice. Target minimums decline in following years.
- Loan rates are tied to an average of past market prices, and much larger discretionary reductions are permitted if the previous season's prices were low or if market competitiveness is likely to be hampered by the formula-determined rate.

- New conservation reserve, "sodbuster", and "swampbuster" provisions were implemented to protect highly erodible land and wetlands. The 1985 Act also extends several other conservation programs.

- Discretionary marketing loans for wheat,feed grains, and soybeans, and mandatory marketing loans and marketing certificates for rice and upland cotton were implemented.

PRODUCTION ADJUSTMENT

Acreage Reduction/ Set-Aside Programs

Authority to reduce acreage planted to crops when supplies are excessive is continued in the 1985 Act. But rather than being discretionary, as in the past, specific acreage adjustment provisions are required when stocks are expected to exceed certain levels.

These programs protect and improve farm income, keep agricultural production in line with anticipated needs, and help assure that both farmers and consumers are equitably considered in the marketplace.

In line with these objectives, the Secretary of Agriculture may require participating producers to limit the acreage of a program crop (wheat, feed grains, upland cotton, and rice). This limitation is met through acreage reduction for each program crop or through a set-aside program for wheat, barley, oats, corn, and grain sorghum. Acreages are limited if the Secretary determines that without a program the total supply of such crop is likely to be excessive.

If an acreage reduction or set-aside is in effect, producers must comply with program provisions to be eligible for loans, purchases, and payments. Producers must reduce their plantings on the farm by a specified percentage of acreage base for the commodity. Acreage bases are established for each farm for each commodity based upon the planted and considered-planted acreages of the commodity in previous years. Producers must devote to approved conservation uses an acreage of cropland equal to a specified percentage of the acreage planted for harvest.

Compliance with NCA Provisions

Whenever a set-aside is in effect, the Secretary may require that a normal crop acreage (NCA) be established for each farm. To qualify for loan, purchase, and target price protection when an NCA is required, producers must limit acreage of NCA crops to the NCA minus the set-aside and any voluntary diversion. Owners and operators may also be required to limit the acreage of NCA crops to the NCA on other farms they own or operate that produce a set-aside crop.

Producers may be required to comply with any imposed set-aside requirements on a farm on which a set-aside crop is planted to become eligible for loans and deficiency payments on any program crop produced on the farm and for CCC price support loans on any crop included in the NCA (except sugar beets, sugarcane, and soybeans).

Paid Voluntary Diversion

If the Secretary determines that additional reduction in planted acres for a program crop is needed, producers may be offered paid voluntary diversion whether or not an acreage reduction or set-aside program is in effect. Such acreage must be devoted to approved conservation uses.

New Conservation Provisions

A major innovation in the 1985 Act is the Conservation Reserve Program which is targeted at reducing erosion on 40-45 million acres of farmland. Producers who sign contracts agree to convert highly erodible cropland to approved conservation uses in exchange for rental payments and payments to share the cost of conservation practices.

New sodbuster and swampbuster provisions are also aimed at preventing production on erodible land and wetlands.

Quota and Allotment Programs

Marketing quotas and acreage allotments are authorized under the Agricultural Adjustment Act of 1938, as amended, to regulate the marketing of some commodities when supplies are excessive.

The Secretary of Agriculture must proclaim national marketing quotas for designated crops when supply prospects exceed specified levels. Quotas are in effect only when approved by a two-thirds majority of the eligible producers voting in a referendum. If approved, the quotas become mandatory for producers.

The national marketing quota for a given commodity represents, in general, the quantity estimated to be required for domestic use and exports during the year. The quota is prorated on individuals' farms on the basis of past production history.

Acreage allotments and/or quotas are in effect for peanuts and most tobaccos.

PRICE SUPPORT

Bases of Price Support

Price support programs for specified commodities were first authorized by the Agricultural Adjustment Acts of 1933 and 1938.

Price support is required or authorized for wheat, corn, peanuts, rice, tobacco, wool, mohair, upland and extra long staple cotton, honey, barley, oats, rye, sorghum, milk and its products, soybeans, sugar beets, and sugarcane. Support may be through loans, purchases, payments, or a combination of these methods.

The Secretary of Agriculture may modify or suspend support prices and eligibility requirements for program participation for certain commodities.

Support Levels

For many commodities, Congress has established specific levels at which, or a range within which, loan, purchase, and payment rates are set.

Most announced loan and purchase levels are national averages, representing the average of all classes and grades of the commodity produced for market for all farmers. National average loan and purchase rates are converted into local loan and purchase rates for grades and qualities at specified locations. Premiums and discounts are established for qualities other than the base quality. These are added to or subtracted from the basic level at each location.

Payments

Producers may receive deficiency payments (based on target prices), loan deficiency payments, disaster payments, incentive payments, indemnity payments, and voluntary diversion payments. Funds for all payments are provided through CCC.

Advance Payments

If deficiency payments are expected to be made, the Secretary must make advance payments to 1986 program participants. For 1987-90 crops of wheat, feed grains, upland cotton, and rice, advance payments are discretionary. Payments may be in cash, in kind from CCC-owned commodities, or in negotiable certificates redeemable for CCC-owned commodities. However, not more than 50 percent of the payments can be made in kind or as certificates. Advance payments may not exceed 50 percent of the estimated total payment. Advance diversion payments are discretionary for 1986-90 program crops.

Interest Payment Certificates

To any producer who repays a price support loan with interest, the Secretary may provide a negotiable certificate. The value of the certificate is equal to the interest repaid by the producer for the loan and is redeemable for CCC-owned wheat, feed grains, upland cotton, or rice, subject to availability.

Target Prices

Target prices are established for wheat, feed grains, upland cotton, and rice. When an acreage limitation program is in effect, payments are based on the producer's acreage planted within the permitted acreage. If the national average market price received by producers during the first five months of the marketing year (or, for upland cotton, during the calendar year in which the crop is planted) drops below the target level, a payment is made to eligible producers equal to the difference between the target price and the higher of the loan level or the average market price.

Target price payments under the wheat, feed grains, upland cotton, ELS cotton, and rice programs combined cannot exceed $50,000 for each of the 1986 through 1990 crops. This limitation does not apply to CCC purchases, loans, or payments resulting from reducing the basic loan rate.

Disaster Payments

To be eligible for any disaster payments, a producer must comply with acreage reduction requirements.

An eligible producer may receive payment if prevented from planting any portion of the farm's intended applicable commodity acreage to these crops or other nonconserving crops because of drought, flood, or other natural disaster or condition beyond the producer's control. Eligible producers may also receive payment for the total quantity of the eligible crop harvested on the farm that is less than 60 percent of the farm program yield established for the farm for wheat, feed grains, peanuts, soybeans, sugar beets, and sugarcane and 75 percent of the farm program payment yield established for cotton and rice.

The Secretary of Agriculture may also make disaster payments to producers on a farm when the losses suffered by the producer are so substantial as to have created an economic emergency for the producer. Federal crop insurance payments and other Federal aid made available to the producer must be found insufficient to alleviate the producer's economic emergency.

The combined disaster payments for wheat, feed grains, upland cotton, and rice programs cannot exceed $100,000 for each of the 1986 through 1990 crops.

Incentive Payments

The wool and mohair provisions of the 1981 Act are extended through 1990. Price support is provided for shorn wool and mohair and on sales of unshorn lambs through incentive payments to producers. Payments are based on the percent needed to bring the average return received by all producers up to the support level.

To determine individual payments, this percentage is applied to the producer's net proceeds from the sale of wool or mohair. Under this method, the producer who gets a higher market price also gets a higher incentive payment encouraging producers to improve the quality and marketing of their wool and mohair.

Dairy Termination Program

The 1985 Act continues the reduction in milk price supports and mandates a milk production termination program. This is a voluntary 18-month program, which began April 1,1986. Producers bid for contracts which, when accepted, required the Secretary to pay them to terminate milk production for a period of 5 years by selling for export or slaughter all dairy cattle they owned.

Indemnity Payments	Under the dairy indemnity payment program, farmers are eligible for indemnity payments for milk removed from the market or for cows producing such milk because of contamination by pesticides or other harmful substances. In addition, manufacturers of milk products are eligible for indemnity payments for milk products removed from the market because of contamination by pesticides. The dairy farmer or manufacturer must not have been responsible for the contamination. Payments are authorized only if other legal recourse is not available to the dairy farmer or manufacturer.
Voluntary Diversion Payments	If voluntary diversion is announced, the Secretary determines the rate and method of computing payments.
Commodity Loans	The CCC makes commodity loans directly to eligible farmers, and through cooperative marketing associations to farmers and sugar processors, on the security of the stored commodities. Stocks may be stored on the farm in approved structures or off the farm in approved commercial warehouses. Commodity loans are nonrecourse. The commodities serve as collateral for the loan. If a loan is made directly to a farmer, the farmer may repay the loan, plus accrued interest computed on a daily basis, at any time prior to loan maturity. Farmers who cannot profitably repay a loan with interest may deliver farm-stored commodities to the CCC, or forfeit warehouse-stored commodities to the CCC in full satisfaction of the loan. Loans on tobacco and peanuts are made through producer associations and on barley, cotton, corn, oats, rye, sorghum, soybeans, wheat, rice, and honey either directly to farmers or to cooperatives on behalf of their members. In the case of producer association or cooperative loans, the commodity of all producers is generally pooled. The association markets the commodity held as collateral and either repays the amount due to the CCC or remits the sales proceeds to apply on the loan. A cooperative must repay the loan when the commodity is sold. If sales by the association or cooperative are greater than the sum of advances to growers and the loan repayment amount, the proceeds are distributed to growers participating in the pool. Producers of sugar beets and sugarcane are afforded price support through loans made to processors of refined beet sugar or raw cane sugar. Processors, in order to qualify for loans, must guarantee to pay producers who deliver sugar beets or sugarcane for processing no less than the specified price support levels for those commodities.
Purchases	The CCC purchases, as authorized or required by legislation, honey, rice, peanuts, soybeans, sugar, dairy products, oats, rye, corn, sorghum, barley, and wheat.

A producer may apply at the county ASCS office for the option of selling to the CCC an approximate quantity of an eligible commodity at a settlement value established by government regulation or the government may seek bids from producers for the purchase of commodities required for distribution programs.

Disposition of CCC-owned Commodities

Commodities acquired by CCC are sold for domestic or export use, donated through Federal, State, and private agencies for use in child nutrition programs and in the assistance of needy persons in the United States, and transferred to the Veterans Administration for use in hospitals and to the Department of Defense. Grains may be donated to aid livestock producers in declared acute distress and major disaster areas or sold at reduced prices to livestock producers in areas where feed is short due to a natural disaster.

Farmer-Owned Grain Reserve

The Grain Reserve is continued in the 1985 Act, except that minimum and maximum levels of wheat and feed grains that may enter the reserve in a marketing year are specified. (There was no maximum limit in the 1981 Act.)

The purpose of the reserve is to isolate grain stocks from the market to counter the price-depressing effects of these surplus stocks. To participate, farmers or cooperatives must put the eligible crop under a CCC price support loan.

The reserve agreement extends the original loan for three years. The farmer agrees not to sell the grain in the reserve until national average market prices reach a specified trigger level.

CCC makes annual payments in advance to producers to help pay the costs of reserve storage.

Grain placed in the reserve is subject to the same storage requirements as grain in the regular price support loan program. It can be stored either on the farm or in commercial warehouses.

Producers are permitted to rotate their reserve stocks to maintain quality.

For detailed information on commodity programs, see ASCS fact sheets on individual commodities.